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Message Text

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71
ACTION COME-00

INFO OCT-01 EUR-25 ISO-00 EB-11 OMB-01 CIEP-02 INT-08

TRSE-00 STR-08 AGR-20 TAR-02 CIAE-00 DODE-00 PM-07

H-03 INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01

SPC-03 SS-20 USIA-15 SAM-01 DRC-01 /157 W
---------- 032904
R 252033Z FEB 74
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 2781

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E.O. 11652: N/A
TAGS: EIND, ETRD, CA
SUBJECT: FERROUS SCRAP SITUATION: POSSIBLE HIGH LEVEL CANADIAN APPROACH IN WASHINGTON

REF: OTTAWA 427

1. TORONTO GLOBE AND MAIL OF FEBRUARY 21, 1974 CARRIED TWO ARTICLES BY NICHOLAS COTTER, BASED ON INTERVIEWS WITH CANADIAN STEEL INDUSTRY SOURCES, REPORTING THAT DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE (ITC) IS DELAYING STEEL SCRAP EXPORT PERMITS PENDING A GOC DECISION ON SUPPLY SITUATION. ACCORDING TO COTTER ARTICLES:

(A) THERE IS POSSIBILITY OF CUTBACKS IN STEEL OUTPUT AND EVEN CLOSING OF SOME SMALL AND MEDIUM-SIZED CANADIAN MILLS DUE TO STEEL SCRAP SHORTAGE;

(B) HIGHER U.S. PRICES FOLLOWING REMOVAL OF PRICE CONTROLS LAST WEEK REDUCED EXPORTS TO CANADA "TO A TRICKLE";

(C) U.S. STEEL SCRAP EXPORTERS ARE HAVING DIFFICULTIES
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IN OBTAINING EXPORT LICENSES FOR CANADA AND OTHER

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DESTINATIONS IN SPITE OF ALLOCATION SYSTEM;

(D) CANADIAN SCRAP DEALERS ARE EAGER TO EXPORT
TO HIGHER-PRICED U.S. MARKET;

(E) CANADIAN SCRAP EXPORT PERMITS FOR EVEN
LIMITED TONNAGES ARE SAID TO BE DIFFICULT TO
OBTAIN, AND ITC IS NOW HOLDING BACK PERMITS PENDING
GOC DECISION ON SUPPLY SITUATION;

(F) EACH CANADIAN EXPORT PERMIT APPLICATION MUST
INCLUDE LETTER FROM DOMESTIC MILL WHICH HAS REFUSED TO
BUY THE SCRAP AT COMPETITIVE PRICE OFFERED BY DEALER, WHO
IS NOT REQUIRED TO ACCEPT "POSTED" BUYING
PRICE OF DOMESTIC MILL; AND

(G) SOME INDUSTRY SOURCES SPECULATE THAT GOC
WILL IMPOSE SPECIAL EXPORT TAX ON SCRAP.
ARTICLES BEING AIRPOUCHED TO STATE EUR/CAN AND EB AND
COMMERCE, OFFICE OF EXPORT ADMINISTRATION.

2. IN FEBRUARY 22 CONVERSATION OF EMBASSY OFFICERS
WITH W.P. MOLSON, EXPORT AND IMPORT PERMITS DIVISION
AND JOHN DAWSON, ACTING DIRECTOR GENERAL OF ITC
RESOURCE INDUSTRIES AND CONSTRUCTION BRANCH, DAWSON SAID
COTTER ARTICLES WERE "REASONABLY ACCURATE AND NON-
CONTENTIOUS" ALTHOUGH COTTER APPARENTLY DID NOT
CONSULT GOC SOURCES. WITH REFERENCE TO SPECULATION
ABOUT SPECIAL EXPORT TAX ON SCRAP, HOWEVER, DAWSON
SAID, THERE WAS NO REPEAT NO FOUNDATION FOR THIS
IN GOC THINKING AS FAR AS HE KNEW. HE STATED
FURTHER THAT, HOPEFULLY BEFORE PARLIAMENT RECONVENES
FEBRUARY 27, ITC MINISTER GILLESPIE WILL CHOOSE AMONG
SEVERAL OPTIONS FOR SHORT-TERM ACTION TO "CONCENTRATE
STEEL SCRAP SUPPLIES IN CANADA". POSSIBILITIES RANGE
FROM A TIGHTENING OF STEEL SCRAP EXPORT RESTRICTIONS
TO ALL DESTINATIONS--IN WHICH EVENT SHIPMENTS TO
U.S. PROBABLY WOULD NOT REPEAT NOT SUFFER (SEE
PARA 4 BELOW)--TO A DECISION TO SEEK AT HIGH LEVEL IN
WASHINGTON "OPEN BORDER" IN STEEL SCRAP BETWEEN U.S.
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AND CANADA.

3. DAWSON STATED THAT SERIOUS SHORTAGE OF
STEEL SCRAP IN CANADA WOULD BECOME CRITICAL DURING
SECOND HALF OF 1974 IF U.S. EXPORT ALLOTMENT FOR
CANADA NOT INCREASED. BASIC STEEL PRODUCTION IN
1974 WILL REACH APPROXIMATELY 15.4 MILLION TONS,
COMPARED TO 13.1 MILLION TONS IN 1972. (MOST

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OF INCREASE WILL BE IN ELECTRIC FURNACE PRODUCTION, HEAVY USER OF SCRAP.) CANADA RELIES ON U.S. FOR ALL REPEAT ALL STEEL SCRAP IMPORTS. DAWSON ANTICIPATED 600,000 TON SHORTFALL IN 1974 IF U.S. MAINTAINS QUARTERLY STEEL SCRAP ALLOTMENT AT 200,000 TONS. HE STRESSED CANADIAN NEED FOR TOTAL OF 1.5 MILLION TONS OF SCRAP FROM U.S. IN 1974.

4. IF GOC EXPORT RESTRICTIONS FURTHER TIGHTENED, DAWSON BELIEVED STEEL SCRAP SHIPMENTS TO U.S. "WOULD NOT REPEAT NOT SUFFER," BECAUSE:

(A) PRESENT EXPORTS TO U.S. INCLUDE TYPES OF SCRAP NOT NORMALLY UTILIZED IN CANADIAN TECHNOLOGY (I.E., STAINLESS STEEL SCRAP, BRIQUETTES OF IRON TURNINGS);

(B) TRANSPORTATION COSTS WITHIN CANADA ENCOURAGE CONTINUATION OF CROSS-BORDER SHIPMENTS; AND

(C) GOC WOULD SEEK TO EASE HARDSHIPS FOR DEALERS TRADITIONALLY INVOLVED IN CROSS-BORDER TRADE. OFFSHORE SHIPMENTS WOULD, HOWEVER, BE FURTHER REDUCED.

5. DAWSON REPEATED HIS EARLIER STATEMENT (REFTEL) THAT INDUSTRY PRESSURES FOR EXPORT CONTROLS ON PIG IRON INCREASING AS STEEL SCRAP PRICE RISES AND SUPPLIES REMAIN INADEQUATE, AND AGAIN CITED LARGE VOLUME (BY CANADIAN STANDARDS) OF PIG IRON SHIPMENTS TO U.S. JOHNSON

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